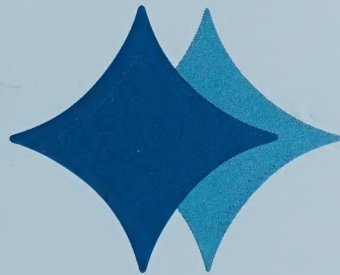


AR61

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

1996



**PEOPLES
OIL LIMITED**

**Annual
Report**

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders will be held on Monday, February 10, 1997, at 10:00 a.m. in the Viking Room at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

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ABBREVIATIONS

<i>bbl</i>	=	<i>barrels</i>
<i>bbl/d</i>	=	<i>barrels of oil per day</i>
<i>Mbbl</i>	=	<i>thousands of barrels</i>
<i>MMbbl</i>	=	<i>millions of barrels</i>
<i>Mcf</i>	=	<i>thousand cubic feet</i>
<i>Mcf/d</i>	=	<i>thousand cubic feet per day</i>
<i>MMcf/d</i>	=	<i>million cubic feet per day</i>
<i>NGL</i>	=	<i>natural gas liquids</i>

CORPORATE PROFILE

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Peoples Oil Limited is a Calgary based energy company engaged in the exploration, development and production of crude oil and natural gas. It began trading publicly on the Vancouver Stock Exchange in July 1980, then was listed on the Alberta Stock Exchange in August, 1992 under the trading symbol "PPS".

From inception to 1993, Peoples focused its oilfield activities in the USA. In 1993, the Company sold these assets and purchased the Keho properties in southern Alberta. New management acquired control of Peoples during the third quarter of fiscal 1996 and is committed to an active and successful period of growth.

Approximately thirty percent of the Company's 3.56 million shares are now held by the new management, with the remainder widely held by institutions and individual investors. Market capitalization at fiscal year end was \$1.7 million.

HIGHLIGHTS

	1996	1995	% Change
FINANCIAL			
REVENUE	\$ 110,108	\$ 198,462	(45)
NET INCOME (LOSS)	\$ (403,743)	\$ (375,855)	(7)
CASH FLOW FROM OPERATIONS	\$ (236,441)	\$ (197,971)	(19)
CAPITAL EXPENDITURES	\$ 123,335	\$ 144,190	(14)

	1996	1995	% Change
OPERATING			
PRODUCTION			
Crude oil and NGL (bbl)	951	1,494	(36)
Natural gas (Mcf)	18,030	41,622	(57)
AVERAGE PRICES			
Crude oil (\$/bbl)	\$ 18.99	\$ 23.47	(24)
Natural gas (\$/Mcf)	\$ 1.67	\$ 1.14	46
RESERVES (proven)			
Crude oil and NGL (Mbbbl)	3.8	5.4	(30)
Natural gas (MMcf)	173.2	292.1	(41)

MESSAGE TO SHAREHOLDERS

Fiscal 1996 marked a major change for Peoples. In May, a new group of investors acquired a 30% equity interest in the company primarily through the acquisition of substantially all of the shares held by the founder and major shareholder.

Concurrently with this change of control, new directors and management were installed, and in November a new President, Mr. Bruce Sherley, was hired. A Vice-President of Exploration will be appointed shortly.

The new management team has begun a program to make Peoples an active and successful oil and gas company. A three-part growth strategy has been put in place.

The first step involves the existing oil and gas assets. Following an extensive review, we have determined that there is potential to increase the value of the existing properties at Keho. Where possible, we will increase our working interests, then rework producing wells and drill new ones to add reserves and production. Several drillable prospects have been identified on undeveloped Keho lands. Low working interest properties will be sold if value can be added in this manner.

Secondly, we will position the Company in a new core area that has potential for higher growth. To accomplish this, we will acquire underdeveloped producing properties, then exploit the upside with state of the art engineering and geological technology in which new management is experienced.

Thirdly, Peoples will use management's extensive international experience to obtain small working interests in high potential international plays. Our intention is to lead negotiations in the acquisition of such areas, then attract other companies to participate, with Peoples retaining a small interest with minimum financial exposure through the initial work phase. This strategy will enable the Company to participate in large potential plays while minimizing financial risk.

OPERATIONS

Revenue from operations was \$110,108. This is down from \$198,462 in 1995 as a result of lower production volumes. The Company's two non-operated gas plants were shut-in for much of the year. The South Keho gas plant (17.5% interest) experienced low production rates, while the North Keho gas plant (44.3% interest) was shut-in because of a pooling dispute between partners. The North plant was recently re-started and, with industry activity increasing in the area, additional processing volumes for both plants appear promising.

An external reserves review commissioned by new management has resulted in a reduction of proved reserves from those previously recorded and a subsequent write-down in asset value by \$152,000.

CORPORATE

Several directors resigned from the Board following the May, 1996 change in corporate ownership. Also, the founder and former major shareholder, Mr. John B. Maughan, will not be standing for re-election at the forthcoming annual meeting. We would like to thank all these people for their contributions to Peoples Oil Limited during their tenure.

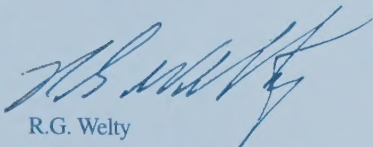
Peoples' new Board of Directors brings many years of successful experience in oil and gas to the Company. Further information on the Board of Directors is included in the Information Circular accompanying this report.

The Board has determined that it would be appropriate for the Company to adopt a new name given its new management and strategy. Subject to shareholder approval at the annual general meeting, Peoples' name will be changed to Sterling Resources Ltd.

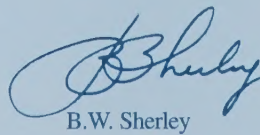
OUTLOOK

1997 will be an active and exciting year for us. All three aforementioned strategies are already underway and new projects are under negotiation for a new Canadian core area and an international acquisition.

On behalf of the Board of Directors,



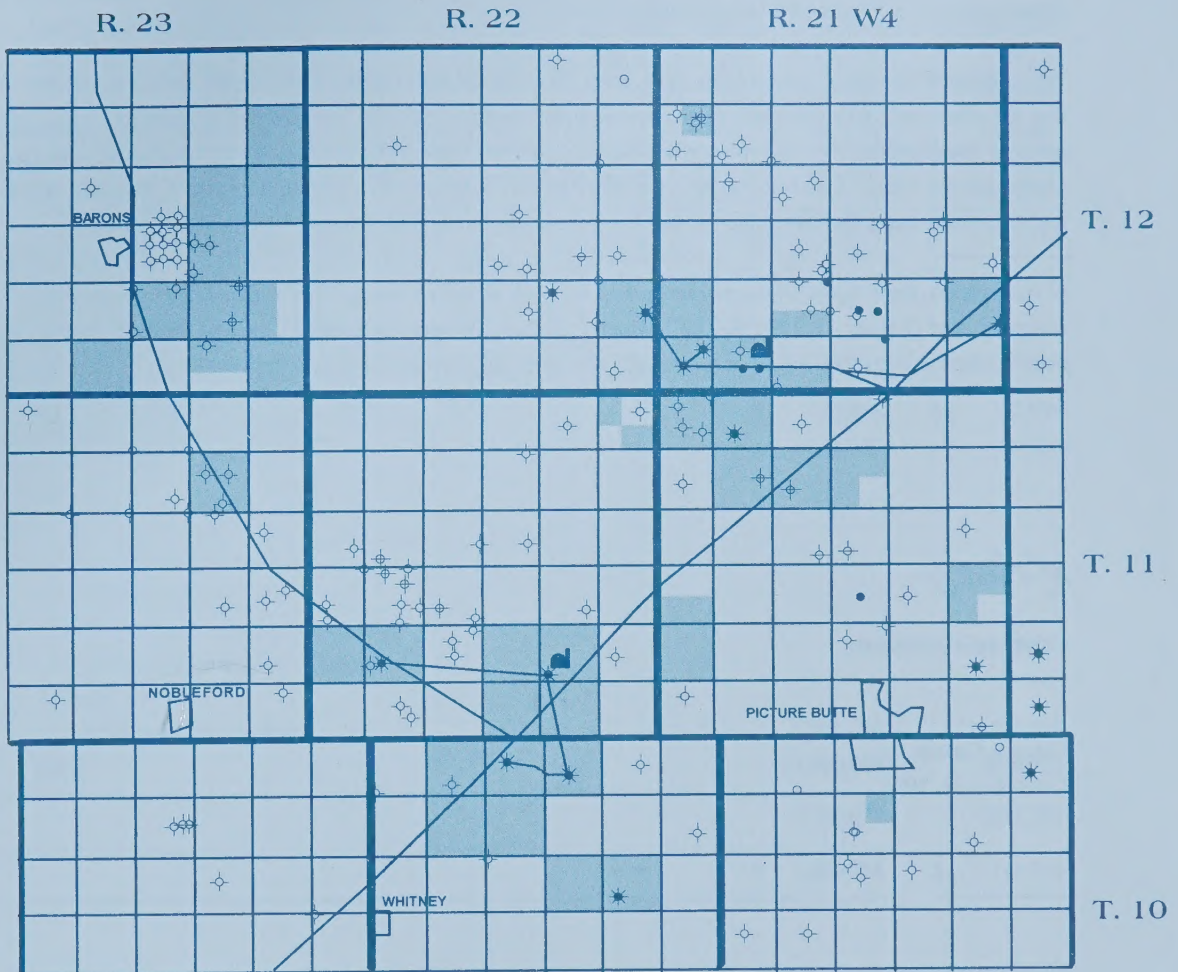
R.G. Welty
Chairman



B.W. Sherley
President and Chief Executive Officer

PROPERTY OUTLINE

KEHO AREA ALBERTA



LEGEND

WELL SYMBOLS

- Oil
- ★ Gas
- ◇ Abandoned
- ◇ Suspended
- ◇ Capped

PIPELINES

- Gas

COMPANY OWNERSHIP

- Company Lands
- Gas Plant



AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Peoples Oil Limited as at October 31, 1996 and 1995 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
December 11, 1996

BALANCE SHEETS

PEOPLES OIL LIMITED

1996

1995

October 31, 1996 and 1995

ASSETS

Current Assets

Cash and term deposits	\$ 940,737	\$ 1,273,513
Accounts receivable	56,716	9,845

997,453 1,283,358

Petroleum and natural gas properties (note 3)

352,140 452,602

Other

19,563 11,253

\$ 1,369,156 \$ 1,747,213

LIABILITY AND SHAREHOLDERS' EQUITY

Current Liability

Accounts payable	\$ 20,845	\$ 30,129
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Provision for future site restoration

43,340 35,370

Shareholders' equity

Share capital (note 5)

Authorized:

unlimited (1995 - 10,000,000) common
shares without nominal or par value

Issued:

3,560,003 common shares

2,385,634 2,358,634

Deficit

(1,080,663) (676,920)

1,304,971 1,681,714

\$ 1,369,156 \$ 1,747,213

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

STATEMENTS OF OPERATIONS AND DEFICIT

PEOPLES OIL LIMITED

1996

1995

Years ended October 31, 1996 and 1995

Revenues

Oil and gas	\$ 48,194	\$ 82,611
Processing	1,859	21,215
Interest	60,055	94,636
	<u>110,108</u>	<u>198,462</u>

Expenses

General and administrative	253,209	221,641
Production costs	37,185	73,676
Depletion and depreciation	223,457	279,000
	<u>513,851</u>	<u>574,317</u>

Net loss	(403,743)	(375,855)
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Deficit, beginning of year	(676,920)	(301,065)
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Deficit, end of year	\$ (1,080,663)	\$ (676,920)
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Loss per share	\$ (0.11)	\$ (0.11)
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See accompanying notes to financial statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

PEOPLES OIL LIMITED

1996

1995

Years ended October 31, 1996 and 1995

Cash provided by (used in)

Operations

Net loss	\$ (403,743)	\$ (375,855)
Items not involving cash		
Depletion and depreciation	223,457	279,000
Net changes in non-cash working capital balances	(56,155)	(101,116)
	(236,441)	(197,971)

Financing

Common shares, net of issue costs	27,000	-
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Investments

Additions to petroleum and natural gas properties	(112,871)	(144,190)
Additions to other assets	(10,464)	-
	(123,335)	(144,190)

Decrease in cash and term deposits during the year	(332,776)	(342,161)
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Cash and term deposits, beginning of year	1,273,513	1,615,674
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Cash, end of year	\$ 940,737	\$ 1,273,513
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See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Years ended October 31, 1996 and 1995

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Petroleum and natural gas properties:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using year end prices, from production of proven reserves, after applicable income taxes and general and administrative expenses.

Costs incurred are being depleted on the unit-of-production method based on estimated gross proven reserves. Oil and natural gas reserves and production are converted into equivalent units based on their estimated relative energy content. The Company has not capitalized any general and administrative expenses for the year.

(b) Future site restoration costs:

Future site restoration and reclamation costs are amortized using the unit-of-production method. These costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation.

(c) Joint venture accounting:

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(d) Net earnings (loss) per share:

Net earnings (loss) per share is calculated using the weighted average number of shares.

(e) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and the provision for future site restoration and reclamation costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates and oil and gas prices, future costs and other relevant assumptions. By their nature these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

2. RELATED PARTY TRANSACTIONS:

Mon-Oil Limited, a company controlled by a former officer and director, provided management services to the Company during the year in the amount of \$65,300 (1995 - \$147,400). During the year, the Company entered into a consulting agreement with the former officer and director whereby the Company has agreed to pay a monthly consulting fee of \$4,167. During 1996 consulting fees paid totalled \$20,833. The agreement expires May 1998.

3. PETROLEUM AND NATURAL GAS PROPERTIES:

	1996	1995
Oil and gas properties	\$ 1,418,348	\$ 1,305,477
Less accumulated depletion and depreciation	(1,066,208)	(852,875)
	\$ 352,140	\$ 452,602

4. INCOME TAXES:

	1996	1995
Provision (recovery) for income taxes based on combined basic Canadian Federal and Provincial tax rate of 44.6%	\$ (180,000)	\$ (166,700)
Changes in income taxes resulting from:		
Non-deductible crown payments, net	1,400	5,000
Resource allowance	-	-
Accounting loss not recognized	178,600	161,700
	\$ -	\$ -

5. SHARE CAPITAL:

	Number of Shares	Amount
Share capital, October 31, 1994 and 1995	3,470,003	\$ 2,358,634
Exercise of stock options	90,000	27,000
Share capital, October 31, 1996	3,560,003	\$ 2,385,634

As at October 31, 1996 the Company has outstanding options to issue common shares to the following:

	Number of Shares	Exercise Price Per Share
Director	50,000	\$ 0.30
Directors	175,000	\$ 0.42
Employee	10,000	\$ 0.48

During the year options for 175,000 common shares at \$0.42 per share and 10,000 common shares at \$0.48 per shares were granted.

6. CONTINGENCY:

On June 26, 1996, the Company filed a statement of claim against Rainee Resources Limited ("Rainee"), the operator of its major oil and gas properties. The claim is for non-payment of accounts relating to net revenues from joint venture oil and gas operations, estimated by management to be approximately \$73,000. In response to this claim Rainee filed a statement of defense and counterclaim on September 13, 1996 for approximately \$198,000 alleging non-payment of operating expenses incurred by Rainee on behalf of the Company as well as other losses and damages suffered as a result of Peoples alleged misconduct. Peoples management is of the opinion that the counterclaim of Rainee is without merit.

CORPORATE INFORMATION

DIRECTORS

Robert G. Welty
*Chairman of the Company,
President, Escondido Resources
(International) Ltd.*

Bruce W. Sherley
President and CEO of the Company

J. Richard Harris
Independent Businessman

Raj K. Agrawal
President, NRG Engineering Ltd.

John B. Maughan
President, Mon-Oil Limited

BANKER

The Royal Bank of Canada
Main Branch, 339 - 8th Avenue S.W.
Calgary, AB T2P 1C4

AUDITORS

KPMG
1200, 205 - 5th Avenue S.W.
Calgary, AB T2P 4B9

REGISTRAR & TRANSFER AGENT

Montreal Trust
600, 530 - 8th Avenue S.W.
Calgary, AB T2P 3S8

OFFICERS

Bruce W. Sherley
President and CEO of the Company

Rodger D. Conner
Corporate Secretary

Sherry L. Cremer
Assistant Corporate Secretary

CORPORATE OFFICES

#1717, 333 Seventh Avenue S.W.
Calgary, AB T2P 2Z1

LEGAL COUNSEL

Conner & Conner
#1717, 333 Seventh Avenue S.W.
Calgary, AB T2P 2Z1

STOCK LISTING

Alberta Stock Exchange
Trading Symbol PPS

**PEOPLES
OIL LIMITED**